

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-------------------------|---|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Muskegon Charter Township | County Muskegon |
| Fiscal Year End 12/31/06 | Opinion Date 6/15/07 | Date Audit Report Submitted to State 6/19/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

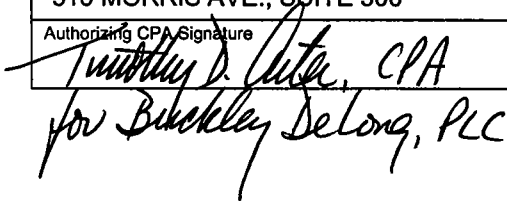
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|--|-------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | No single audit or other item required | | |
| Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC | | Telephone Number 231-726-5820 | | |
| Street Address 316 MORRIS AVE., SUITE 500 | | City MUSKEGON | State MI | Zip 49440 |
| Authorizing CPA Signature  for Brickley DeLong, PLC | | Printed Name TIMOTHY D. ARTER | | License Number 10253 |

Muskegon Charter Township
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2006

Muskegon Charter Township

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Muskegon Charter Township

Management's Discussion and Analysis

As management of Muskegon Charter Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

At the close of the year, the Township had total assets of \$58,605,752 and total liabilities of \$29,991,053 leaving net assets of \$28,614,699, an increase of 11.5%.

Of the total \$28,614,699 in net assets, the Township may use \$9,600,174 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors. Of the unrestricted net assets, \$573,340 are shown in governmental activities and \$9,026,834 are shown in business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Muskegon Charter Township

Management's Discussion and Analysis

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Township include water distribution, sanitation and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Muskegon Charter Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Public Safety Fund, which are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The Township has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water distribution, sanitation and sewer operations.

Muskegon Charter Township

Management's Discussion and Analysis

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for the Eastside Water, Sanitation and Sewer funds, all of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund and Public Safety Fund.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, 2006, the Township's net assets from governmental activities totaled \$4,767,295 (17%) and \$23,847,404 (83%) from business-type activities, creating a total government-wide net assets total of \$28,614,699.

Muskegon Charter Township

Management's Discussion and Analysis

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$573,340. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$23,847,404 in net assets including \$9,026,834 in unrestricted net assets. The Eastside Water Fund, Sanitation Fund and Sewer Fund unrestricted net assets are \$2,597,143, \$481,086 and \$5,948,605, respectively.

Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|--------------|-----------------------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current assets and other assets | \$ 4,347,884 | \$ 4,024,174 | \$ 16,841,490 | \$ 13,586,960 | \$ 21,189,374 | \$ 17,611,134 |
| Capital assets | 4,243,408 | 4,362,592 | 33,172,970 | 21,384,334 | 37,416,378 | 25,746,926 |
| Total assets | 8,591,292 | 8,386,766 | 50,014,460 | 34,971,294 | 58,605,752 | 43,358,060 |
| Current liabilities | 3,290,389 | 3,119,319 | 2,813,229 | 6,672,991 | 6,103,618 | 9,792,310 |
| Noncurrent liabilities | 533,608 | 695,875 | 23,353,827 | 7,209,647 | 23,887,435 | 7,905,522 |
| Total liabilities | 3,823,997 | 3,815,194 | 26,167,056 | 13,882,638 | 29,991,053 | 17,697,832 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 3,715,506 | 3,550,672 | 14,820,570 | 11,271,900 | 18,536,076 | 14,822,572 |
| Restricted | 478,449 | 370,269 | - | - | 478,449 | 370,269 |
| Unrestricted | 573,340 | 650,631 | 9,026,834 | 9,816,756 | 9,600,174 | 10,467,387 |
| Total net assets | \$ 4,767,295 | \$ 4,571,572 | \$ 23,847,404 | \$ 21,088,656 | \$ 28,614,699 | \$ 25,660,228 |

Muskegon Charter Township

Management's Discussion and Analysis

Governmental activity current assets increased \$323,710 due mainly to an increase in cash from normal activities, while capital assets show a decrease of \$119,184 due to normal depreciation offset by land improvements. The business-type activities show an increase in capital assets due to on-going water and sewer expansion projects. In the liability section, business-type activities show a decrease in current liabilities due to the payoff of the \$5.35M bond anticipation note; non-current liabilities increased significantly due to the issuance of a \$16M General Obligation Limited Tax Bond for the financing of ongoing sewer expansion projects. These projects will be wrapping up in 2007. Current and other assets increased for business-type assets due to unexpended bond proceeds.

Governmental Activities

Governmental activities increased by \$195,723 (4.3%) during the 2006 fiscal year. The Township's charges for services increased by \$212,249 in 2006 due mainly to increased charges for fire service protection and administrative fees charged to business-type activities. Capital grants and contributions decreased \$277,260 because the Township did not have a Homeland Security grant this year and because the industrial park improvement grant is almost done. Unrestricted investment earnings also increased significantly in 2006 due to higher interest rates. The Township's culture and recreation expenditures increased in 2006 due to a more accurate allocation of wages and benefits between recreation and public works. The following table depicts these occurrences.

Business-type Activities

At the end of the fiscal year, the net assets for business-type activities increased by \$2,758,748 or 13.1%. Three funds comprise the business-type activities. The Eastside Water Fund had an increase in net assets of \$343,953, the Sanitation Fund had an increase in net assets of \$50,529, and the Sewer Fund had an increase in net assets of \$2,364,266.

Capital grants and contributions increased \$2,555,546 in 2006 due to large amounts pledged by neighboring townships for shared costs of sewer expansion projects. Business-type activities expenses in the Water Fund increased by \$242,424, due mainly to interest expense being recognized in 2006, whereas in prior year it was capitalized with construction costs. Sewer activity expenses increased \$240,264 due to increased charges from Muskegon County and increased usage as more customers hook up.

Muskegon Charter Township

Management's Discussion and Analysis

Change in Net Assets

| | Governmental | | Business-type | | Total | |
|---|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 1,576,572 | \$ 1,364,323 | \$ 2,825,010 | \$ 2,743,379 | \$ 4,401,582 | \$ 4,107,702 |
| Operating grants | 33,310 | 60,284 | - | - | 33,310 | 60,284 |
| Capital grants and contributions | 25,364 | 302,624 | 2,964,216 | 408,670 | 2,989,580 | 711,294 |
| General revenues | | | | | | |
| Property taxes | 2,283,921 | 2,087,470 | - | 1,426 | 2,283,921 | 2,088,896 |
| Grants and contributions not restricted | 1,625,560 | 1,690,280 | - | - | 1,625,560 | 1,690,280 |
| Unrestricted investment earnings | 208,851 | 89,852 | 372,705 | 198,404 | 581,556 | 288,256 |
| Miscellaneous | 70,224 | 77,316 | - | - | 70,224 | 77,316 |
| Gain on sale of capital assets | 3,468 | 5,846 | 5,000 | - | 8,468 | 5,846 |
| Total revenues | 5,827,270 | 5,677,995 | 6,166,931 | 3,351,879 | 11,994,201 | 9,029,874 |
| Expenses: | | | | | | |
| General government | 1,173,832 | 1,285,611 | - | - | 1,173,832 | 1,285,611 |
| Public safety | 3,223,029 | 3,313,886 | - | - | 3,223,029 | 3,313,886 |
| Public works | 928,463 | 913,011 | - | - | 928,463 | 913,011 |
| Community and economic development | 25,751 | 24,434 | - | - | 25,751 | 24,434 |
| Culture and recreation | 232,347 | 161,669 | - | - | 232,347 | 161,669 |
| Interest on long term debt | 29,422 | 45,742 | - | - | 29,422 | 45,742 |
| Eastside Water Fund | - | - | 1,525,916 | 1,283,492 | 1,525,916 | 1,283,492 |
| Sanitation Fund | - | - | 457,939 | 445,146 | 457,939 | 445,146 |
| Sewer Fund | - | - | 1,443,031 | 1,202,767 | 1,443,031 | 1,202,767 |
| Total expenses | 5,612,844 | 5,744,353 | 3,426,886 | 2,931,405 | 9,039,730 | 8,675,758 |
| Change in net assets before transfers | 214,426 | (66,358) | 2,740,045 | 420,474 | 2,954,471 | 354,116 |
| Transfers | (18,703) | (34,989) | 18,703 | 34,989 | - | - |
| Change in net assets | 195,723 | (101,347) | 2,758,748 | 455,463 | 2,954,471 | 354,116 |
| Net assets - Beginning | 4,571,572 | 4,672,919 | 21,088,656 | 20,633,193 | 25,660,228 | 25,306,112 |
| Net assets - Ending | \$ 4,767,295 | \$ 4,571,572 | \$ 23,847,404 | \$ 21,088,656 | \$ 28,614,699 | \$ 25,660,228 |

Muskegon Charter Township

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the governmental funds reported a combined fund balance of \$966,779. This number represents the fund balance of \$529,790 in the General Fund, \$83,578 in the Public Safety Fund and \$353,411 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance of \$585,975 represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$145,929, pay debt service of \$174,522, and purchases allowed for asset forfeiture funds of \$60,353.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Eastside Water Fund, Sanitation Fund and Sewer Fund increased by \$343,953, \$50,529 and \$2,364,266, respectively. The result was an overall net increase in the proprietary funds of \$2,758,748 principally due to capital contributions.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original General Fund budget. The most significant of those are listed below:

- Property tax revenues were originally budgeted for \$1,579,000 and were amended down to \$1,271,121 because the Township appropriated 1 mill of its tax levy to the new Local Street Fund and the budget is more accurately depicted net of this amount.
- Intergovernmental revenue from the state was originally budgeted for \$1,685,500 and was amended up to \$1,730,769 due to the state grant the township received to purchase new voting equipment.
- The Police department was originally budgeted for \$1,196,943 and was amended up to \$1,223,143 because the Township's original overtime budget was optimistically low.
- The Planning department was originally budgeted for \$42,568 and was amended down to \$27,728 because contingency money not spent in that department was used to pay for other various line items that exceeded their original budget.
- Capital outlay was not originally budgeted for and was amended to \$45,269 to account for the voting equipment purchased with the state grant mentioned above.

Muskegon Charter Township

Management's Discussion and Analysis

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- General fund licenses and permits are \$304,550, \$46,476 less than budgeted because of a general decline in construction activity.
- General Fund state intergovernmental revenues are \$1,693,004, \$37,765 less than budgeted because the state revenue sharing received was lower than expected.
- General Fund investment earnings are \$127,847, \$92,847 more than budgeted because interest rates on our investment and savings accounts exceeded what was anticipated.

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2006 totaled \$37,416,378, (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furniture, machinery, equipment, utility systems and vehicles.

Major capital asset events during the current year included the following:

- The State of Michigan donated voting machines to the Township, valued at \$45,269.
- Three police cruisers were purchased for a total of \$68,213.
- The Township's water system expanded this year; the most significant expansions were construction in progress for the Harvey Street Pump Station/Control Project and Dangle Park SAD, costing \$386,783 and \$63,955, respectively.
- The Township's sewer system expanded this year; the most significant expansions were Project C - Dangle and Mill Iron, south of Apple Avenue for \$8,434,262; River Road project for \$1,204,811; and the slip-lining rehab project for \$1,034,554.

Muskegon Charter Township

Management's Discussion and Analysis

Capital Assets (Net of Accumulated Depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 1,174,203 | \$ 381,599 | \$ 40,733 | \$ 40,733 | \$ 1,214,936 | \$ 422,332 |
| Construction in progress | - | 692,765 | 2,328,303 | 630,340 | 2,328,303 | 1,323,105 |
| Land improvements | 474,649 | 504,361 | - | - | 474,649 | 504,361 |
| Buildings and improvements | 1,813,695 | 1,879,620 | - | - | 1,813,695 | 1,879,620 |
| Furniture, machinery and equipment | 152,640 | 132,807 | - | - | 152,640 | 132,807 |
| Vehicles | 628,221 | 771,440 | 135,205 | 202,891 | 763,426 | 974,331 |
| Utility systems | - | - | 30,668,729 | 20,510,370 | 30,668,729 | 20,510,370 |
| Total | <u>\$ 4,243,408</u> | <u>\$ 4,362,592</u> | <u>\$ 33,172,970</u> | <u>\$ 21,384,334</u> | <u>\$ 37,416,378</u> | <u>\$ 25,746,926</u> |

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Long-Term Debt

At the end of the 2006 fiscal year, the Township had total outstanding debt of \$24,652,435 consisting of general obligations bonds, special assessment debt, installment purchase agreements and compensated absences. The special assessment debt is backed by the full-faith and credit of the Township.

Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General obligations bonds | \$ 75,000 | \$ 110,000 | \$ 23,780,478 | \$ 7,672,647 | \$ 23,855,478 | \$ 7,782,647 |
| Special assessment bonds | 332,902 | 471,920 | - | - | 332,902 | 471,920 |
| Installment purchase agreements | 120,000 | 230,000 | - | - | 120,000 | 230,000 |
| Compensated absences | 330,706 | 315,955 | 13,349 | - | 344,055 | 315,955 |
| Total | <u>\$ 858,608</u> | <u>\$ 1,127,875</u> | <u>\$ 23,793,827</u> | <u>\$ 7,672,647</u> | <u>\$ 24,652,435</u> | <u>\$ 8,800,522</u> |

The Township's total debt increased by \$15,851,913 during the fiscal year. This increase was due to additional borrowings related to the Township's local sewer expansion and the County wastewater disposal system, offset by normal debt payoffs.

Additional information on the Township's long-term debt can be found in Note J of the "Notes to the Financial Statements" of this report.

Muskegon Charter Township

Management's Discussion and Analysis

General Economic Overview

The Township's General Fund has two major revenue sources - state revenue sharing and property tax revenue. Those two sources comprise over 74% of the General Fund revenue sources. In fiscal 2007, state constitutional revenue sharing is expected to rise slightly, while statutory revenue sharing is expected to decrease slightly. Property tax revenues are expected to increase by 4.6%, in addition to any new development that occurs.

The 2007 General Fund expenditures budget is down 5.2% from 2006. We are projecting a surplus for the 2007 fiscal year of approximately \$370,000. This surplus is contingent upon the sale of our industrial park lots, see below, and the avoidance of a general fund operating transfer to our Local Street fund, should the township not receive any Act 51 monies as discussed below. The fund balance of the General Fund is at 14% of operating expenses and is expected to increase in fiscal year 2007.

The Township began offering a new insurance plan to its employees beginning January 2007. The plan is an HSA high deductible insurance plan and several employees have begun participating. The outlook is very good with this new program from the standpoint of great benefit to employees and great savings to the Township. A change was also made to our current retirees' health coverage for those retirees that are Medicare eligible. This new coverage also provided greater benefits to our retirees while also bringing a large financial savings to the Township. On another note, we are still in discussion with the Muskegon County Road Commission on the possibility of modernizing the relationship between us to reflect the provisions contained in P.A. No. 5 of 2005. The Township believes that the provisions of this Act allow it to directly receive Act 51 road revenue sharing from the State of Michigan. Those talks are still ongoing, but the Township believes that the result of these negotiations will be that it will be getting Act 51 monies for the operation of its Local Streets Fund. An administration fee has been drawn from the Eastside Water Fund for the third year, and has increased slightly every year as we gain experience and knowledge as to how much employee and administrative time is spent on water related matters. The Township is engaging in a chip and seal program with the Road Commission for maintenance of our secondary roads. We spent approximately \$37,000 in 2006 and are anticipating approximately \$40,000 for 2007 also.

The Township Board and staff remain optimistic that the Township's economic stability will be further enhanced by several projects and other variables in various stages of maturity. These include the sale of lots in the new Industrial Park, continued development in the residential and commercial sectors, and recognition in Lansing that revenue sharing must stabilize. Sewer expansions should be winding up in 2007, with the end result being virtually every street in the Township having sewer service. The Township has amended its sewer ordinance to allow rate changes to be implemented by resolution. We changed the commercial rate from \$.63 per unit to \$1.65 per unit during 2006, which is expected to continue to result in increased revenues into the fund.

Requests for Information

This financial report is designed to provide a general overview of Muskegon Charter Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Charter Township, 1990 E. Apple Avenue, Muskegon, Michigan, 49442, (231) 777-2555.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 15, 2007

Township Board
Muskegon Charter Township
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Charter Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - x and 32 - 33 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muskegon Charter Township, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Muskegon Charter Township
STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

| | Governmental activities | Business-type activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| CURRENT ASSETS | | | |
| Cash and investments | \$ 1,938,604 | \$ 6,458,841 | \$ 8,397,445 |
| Receivables | 1,629,900 | 812,773 | 2,442,673 |
| Due from other governmental units | 715,967 | 2,082,796 | 2,798,763 |
| Internal balances | (512,032) | 512,032 | - |
| Prepaid items | 145,929 | 1,039 | 146,968 |
| Restricted assets | <u>-</u> | <u>4,111,035</u> | <u>4,111,035</u> |
| Total current assets | 3,918,368 | 13,978,516 | 17,896,884 |
| NONCURRENT ASSETS | | | |
| Capital assets, net | | | |
| Nondepreciable | 1,174,203 | 2,369,036 | 3,543,239 |
| Depreciable | 3,069,205 | 30,803,934 | 33,873,139 |
| Access rights, net | - | 1,188,766 | 1,188,766 |
| Bond issue costs, net | - | 128,277 | 128,277 |
| Notes and special assessments receivable | <u>429,516</u> | <u>1,545,931</u> | <u>1,975,447</u> |
| Total noncurrent assets | <u>4,672,924</u> | <u>36,035,944</u> | <u>40,708,868</u> |
| Total assets | 8,591,292 | 50,014,460 | 58,605,752 |

LIABILITIES AND NET ASSETS

| | | | |
|---|---------------------|----------------------|----------------------|
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 280,424 | 2,224,733 | 2,505,157 |
| Due to other governmental units | 82,217 | 148,496 | 230,713 |
| Deferred revenue | 2,602,748 | - | 2,602,748 |
| Bonds and other obligations, due within one year | <u>325,000</u> | <u>440,000</u> | <u>765,000</u> |
| Total current liabilities | 3,290,389 | 2,813,229 | 6,103,618 |
| NONCURRENT LIABILITIES | | | |
| Bonds and other obligations, less amounts due within one year | <u>533,608</u> | <u>23,353,827</u> | <u>23,887,435</u> |
| Total liabilities | <u>3,823,997</u> | <u>26,167,056</u> | <u>29,991,053</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 3,715,506 | 14,820,570 | 18,536,076 |
| Restricted for: | | | |
| Public safety | 317,727 | - | 317,727 |
| Debt service | 160,722 | - | 160,722 |
| Unrestricted | <u>573,340</u> | <u>9,026,834</u> | <u>9,600,174</u> |
| Total net assets | <u>\$ 4,767,295</u> | <u>\$ 23,847,404</u> | <u>\$ 28,614,699</u> |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF ACTIVITIES
For the year ended December 31, 2006

| <i>Functions/Programs</i> | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|--------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------|
| | | Charges for services | Operating grants and contributions | Capital grants and contributions | Governmental activities | Business-type activities | Total |
| Governmental activities | | | | | | | |
| General government | \$ 1,173,832 | \$ 565,865 | \$ - | \$ - | \$ (607,967) | \$ - | \$ (607,967) |
| Public safety | 3,223,029 | 591,366 | 33,310 | - | (2,598,353) | - | (2,598,353) |
| Public works | 928,463 | 395,497 | - | 25,364 | (507,602) | - | (507,602) |
| Community and economic development | 25,751 | 1,177 | - | - | (24,574) | - | (24,574) |
| Culture and recreation | 232,347 | 22,667 | - | - | (209,680) | - | (209,680) |
| Interest on long-term debt | 29,422 | - | - | - | (29,422) | - | (29,422) |
| Total governmental activities | 5,612,844 | 1,576,572 | 33,310 | 25,364 | (3,977,598) | - | (3,977,598) |
| Business-type activities | | | | | | | |
| Eastside water | 1,525,916 | 1,301,238 | - | 511,558 | - | 286,880 | 286,880 |
| Sanitation | 457,939 | 491,688 | - | - | - | 33,749 | 33,749 |
| Sewer | 1,443,031 | 1,032,084 | - | 2,452,658 | - | 2,041,711 | 2,041,711 |
| Total business-type activities | 3,426,886 | 2,825,010 | - | 2,964,216 | - | 2,362,340 | 2,362,340 |
| Total government | \$ 9,039,730 | \$ 4,401,582 | \$ 33,310 | \$ 2,989,580 | (3,977,598) | 2,362,340 | (1,615,258) |
| General revenues | | | | | | | |
| Property taxes, levied for | | | | | | | |
| General purposes | | | | | 1,459,087 | - | 1,459,087 |
| Specific purposes | | | | | 824,834 | - | 824,834 |
| Grants and contributions not restricted to specific programs | | | | | 1,625,560 | - | 1,625,560 |
| Unrestricted investment earnings | | | | | 208,851 | 372,705 | 581,556 |
| Miscellaneous | | | | | 70,224 | - | 70,224 |
| Gain on sale of capital assets | | | | | 3,468 | 5,000 | 8,468 |
| Transfers | | | | | (18,703) | 18,703 | - |
| Total general revenues and transfers | | | | | 4,173,321 | 396,408 | 4,569,729 |
| Change in net assets | | | | | 195,723 | 2,758,748 | 2,954,471 |
| Net assets at January 1, 2006 | | | | | 4,571,572 | 21,088,656 | 25,660,228 |
| Net assets at December 31, 2006 | | | | | \$ 4,767,295 | \$ 23,847,404 | \$ 28,614,699 |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
BALANCE SHEET
Governmental Funds
December 31, 2006

| | General Fund | Public Safety Fund | Other governmental funds | Total governmental funds |
|--------------------------------------|---------------------|--------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 282,578 | \$ 377,657 | \$ 1,278,369 | \$ 1,938,604 |
| Receivables | | | | |
| Accounts | 80,522 | - | - | 80,522 |
| Property taxes | 861,712 | 395,875 | 247,616 | 1,505,203 |
| Special assessments | - | - | 473,691 | 473,691 |
| Due from other governmental units | 613,981 | - | 101,986 | 715,967 |
| Due from other funds | 200,272 | 3,200 | 37,361 | 240,833 |
| Prepaid items | 135,800 | 10,062 | 67 | 145,929 |
| Total assets | <u>\$ 2,174,865</u> | <u>\$ 786,794</u> | <u>\$ 2,139,090</u> | <u>\$ 5,100,749</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 69,714 | \$ 7,132 | \$ 100,602 | \$ 177,448 |
| Accrued liabilities | 68,863 | 13,500 | 6,813 | 89,176 |
| Due to other governmental units | - | - | 82,217 | 82,217 |
| Due to other funds | 8,200 | - | 308,665 | 316,865 |
| Deferred revenue | 1,498,298 | 682,584 | 851,382 | 3,032,264 |
| Advances from other funds | - | - | 436,000 | 436,000 |
| Total liabilities | 1,645,075 | 703,216 | 1,785,679 | 4,133,970 |
| Fund balances (deficits) | | | | |
| Reserved for: | | | | |
| Prepaid items | 135,800 | 10,062 | 67 | 145,929 |
| Debt service | - | - | 174,522 | 174,522 |
| Asset forfeitures | 60,353 | - | - | 60,353 |
| Unreserved | | | | |
| Undesignated, reported in | | | | |
| General Fund | 333,637 | - | - | 333,637 |
| Special revenue funds | - | 73,516 | 382,672 | 456,188 |
| Capital projects funds | - | - | (203,850) | (203,850) |
| Total fund balances | 529,790 | 83,578 | 353,411 | 966,779 |
| Total liabilities and fund balances | <u>\$ 2,174,865</u> | <u>\$ 786,794</u> | <u>\$ 2,139,090</u> | <u>\$ 5,100,749</u> |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
December 31, 2006

| | | |
|---------------------------------------|----|---------|
| Total fund balance—governmental funds | \$ | 966,779 |
|---------------------------------------|----|---------|

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

| | | |
|--------------------------|--------------------|-----------|
| Cost of capital assets | \$ 7,513,443 | |
| Accumulated depreciation | <u>(3,270,035)</u> | 4,243,408 |

| | | |
|--|--|----------|
| Accrued interest in governmental activities is not reported in the governmental funds. | | (13,800) |
|--|--|----------|

| | | |
|--|--|---------|
| Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds. | | 429,516 |
|--|--|---------|

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

| | | |
|-------------------------|------------------|------------------|
| Bonds and notes payable | (527,902) | |
| Compensated absences | <u>(330,706)</u> | <u>(858,608)</u> |

| | | |
|--|----|-------------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ | <u><u>4,767,295</u></u> |
|--|----|-------------------------|

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended December 31, 2006

| | General Fund | Public Safety Fund | Other governmental funds | Total governmental funds |
|--|-----------------|--------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 1,295,483 | \$ 659,885 | \$ 486,917 | \$ 2,442,285 |
| Licenses and permits | 304,550 | - | - | 304,550 |
| Intergovernmental revenues | | | | |
| Federal | - | - | 25,364 | 25,364 |
| State | 1,693,004 | - | - | 1,693,004 |
| Charges for services | 330,157 | - | 516,797 | 846,954 |
| Fines and forfeitures | 74,153 | - | - | 74,153 |
| Investment earnings | 127,847 | 6,735 | 74,270 | 208,852 |
| Other | 74,650 | 11,207 | 98,697 | 184,554 |
| Total revenues | 3,899,844 | 677,827 | 1,202,045 | 5,779,716 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 890,639 | - | - | 890,639 |
| Public safety | 2,349,660 | 558,552 | 60,379 | 2,968,591 |
| Public works | 9,870 | - | 686,798 | 696,668 |
| Community and economic development | 25,751 | - | 19,688 | 45,439 |
| Culture and recreation | 201,527 | - | - | 201,527 |
| Other governmental functions | 315,386 | - | 131,417 | 446,803 |
| Debt service | | | | |
| Principal | 35,000 | 70,000 | 179,018 | 284,018 |
| Interest and fees | 5,203 | 1,418 | 27,903 | 34,524 |
| Capital outlay | 45,269 | 68,213 | 99,839 | 213,321 |
| Total expenditures | 3,878,305 | 698,183 | 1,205,042 | 5,781,530 |
| Excess of revenues over (under) expenditures | 21,539 | (20,356) | (2,997) | (1,814) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 268 | 3,200 | - | 3,468 |
| Transfers in | 90,575 | - | - | 90,575 |
| Transfers out | - | - | (109,278) | (109,278) |
| Total other financing sources (uses) | 90,843 | 3,200 | (109,278) | (15,235) |
| Net change in fund balances | 112,382 | (17,156) | (112,275) | (17,049) |
| Fund balances at January 1, 2006 | 417,408 | 100,734 | 465,686 | 983,828 |
| Fund balances at December 31, 2006 | \$ 529,790 | \$ 83,578 | \$ 353,411 | \$ 966,779 |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2006

| | | |
|--|----|----------|
| Net change in fund balances—total governmental funds | \$ | (17,049) |
|--|----|----------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

| | | | |
|----------------------|----|----------------|-----------|
| Depreciation expense | \$ | (326,650) | |
| Capital outlay | | <u>213,321</u> | (113,329) |

| | |
|--|---------|
| Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets. | (5,855) |
|--|---------|

| | |
|---|---------|
| Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | 284,018 |
|---|---------|

| | |
|--|-------|
| Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid. | 5,100 |
|--|-------|

| | |
|--|----------|
| Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds. | (14,751) |
|--|----------|

| | |
|---|---------------|
| Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets. | <u>57,589</u> |
|---|---------------|

| | |
|---|--------------------------|
| Change in net assets of governmental activities | \$ <u><u>195,723</u></u> |
|---|--------------------------|

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2006

ASSETS

| | Business-type Activities - Enterprise funds | | | |
|---|---|------------|---------------|---------------|
| | Eastside Water | Sanitation | Sewer | Total |
| CURRENT ASSETS | | | | |
| Cash and investments | \$ 1,648,565 | \$ 389,109 | \$ 4,421,167 | \$ 6,458,841 |
| Receivables | | | | |
| Accounts | 315,963 | 120,044 | 320,848 | 756,855 |
| Special assessments | 55,918 | - | - | 55,918 |
| Due from other governmental units | - | - | 2,082,796 | 2,082,796 |
| Due from other funds | 90,694 | 5,000 | 19,048 | 114,742 |
| Prepaid items | 161 | 717 | 161 | 1,039 |
| Restricted assets | - | - | 4,111,035 | 4,111,035 |
| Total current assets | 2,111,301 | 514,870 | 10,955,055 | 13,581,226 |
| NONCURRENT ASSETS | | | | |
| Capital assets | | | | |
| Land | 15,966 | - | 24,767 | 40,733 |
| Utility systems | 6,983,189 | - | 32,390,034 | 39,373,223 |
| Furniture and equipment | - | - | 600 | 600 |
| Vehicles | - | 634,724 | - | 634,724 |
| Construction in progress | 934,332 | - | 1,393,971 | 2,328,303 |
| Less accumulated depreciation | (305,638) | (499,519) | (8,399,456) | (9,204,613) |
| Net capital assets | 7,627,849 | 135,205 | 25,409,916 | 33,172,970 |
| Advances to other funds | - | - | 436,000 | 436,000 |
| Access rights, net | - | - | 1,188,766 | 1,188,766 |
| Bond issuance costs, net | 58,891 | - | 69,386 | 128,277 |
| Notes and special assessments receivable | 1,077,034 | - | 468,897 | 1,545,931 |
| Total noncurrent assets | 8,763,774 | 135,205 | 27,572,965 | 36,471,944 |
| Total assets | 10,875,075 | 650,075 | 38,528,020 | 50,053,170 |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 461,497 | 17,707 | 1,353,601 | 1,832,805 |
| Accrued liabilities | 47,909 | 3,708 | 340,311 | 391,928 |
| Due to other governmental units | 79,935 | - | 68,561 | 148,496 |
| Due to other funds | 1,361 | - | 37,349 | 38,710 |
| Bonds and other obligations, due within one year | 260,000 | 6,000 | 174,000 | 440,000 |
| Total current liabilities | 850,702 | 27,415 | 1,973,822 | 2,851,939 |
| NONCURRENT LIABILITIES | | | | |
| Bonds and other obligations, less amounts due within one year | 6,433,495 | 6,369 | 16,913,963 | 23,353,827 |
| Total liabilities | 7,284,197 | 33,784 | 18,887,785 | 26,205,766 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 993,735 | 135,205 | 13,691,630 | 14,820,570 |
| Unrestricted | 2,597,143 | 481,086 | 5,948,605 | 9,026,834 |
| Total net assets | \$ 3,590,878 | \$ 616,291 | \$ 19,640,235 | \$ 23,847,404 |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended December 31, 2006

| | Business-type Activities - Enterprise funds | | | |
|---|---|------------|---------------|---------------|
| | Eastside Water | Sanitation | Sewer | Total |
| REVENUES | | | | |
| Charges for services | \$ 1,301,238 | \$ 491,688 | \$ 1,032,084 | \$ 2,825,010 |
| OPERATING EXPENSES | | | | |
| Administration | 83,538 | 45,480 | 138,916 | 267,934 |
| Operations | 1,016,895 | 344,773 | 775,085 | 2,136,753 |
| Depreciation and amortization | 149,643 | 67,686 | 521,405 | 738,734 |
| Total operating expenses | 1,250,076 | 457,939 | 1,435,406 | 3,143,421 |
| Operating income (loss) | 51,162 | 33,749 | (403,322) | (318,411) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | 57,073 | 11,780 | 303,852 | 372,705 |
| Connection fees | 511,558 | - | 369,862 | 881,420 |
| Gain on sale of capital assets | - | 5,000 | - | 5,000 |
| Interest expense | (275,840) | - | (7,625) | (283,465) |
| Total nonoperating revenues (expenses) | 292,791 | 16,780 | 666,089 | 975,660 |
| Income before contributions and transfers | 343,953 | 50,529 | 262,767 | 657,249 |
| Capital contributions | - | - | 2,082,796 | 2,082,796 |
| Transfers in | - | - | 18,703 | 18,703 |
| Change in net assets | 343,953 | 50,529 | 2,364,266 | 2,758,748 |
| Net assets at January 1, 2006 | 3,246,925 | 565,762 | 17,275,969 | 21,088,656 |
| Net assets at December 31, 2006 | \$ 3,590,878 | \$ 616,291 | \$ 19,640,235 | \$ 23,847,404 |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2006

| | Business-type Activities - Enterprise funds | | | |
|--|---|------------|--------------|---------------|
| | Eastside Water | Sanitation | Sewer | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 1,299,615 | \$ 482,049 | \$ 968,357 | \$ 2,750,021 |
| Receipts from interfund services provided | 3,791 | 1,848 | 2,080 | 7,719 |
| Payments to suppliers | (1,056,394) | (322,598) | (945,185) | (2,324,177) |
| Payments to employees | (54,353) | (112,637) | (78,174) | (245,164) |
| Net cash provided by (used for) operating activities | 192,659 | 48,662 | (52,922) | 188,399 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers in | - | - | 18,703 | 18,703 |
| Advances to other funds (net) | - | - | (150,000) | (150,000) |
| Net cash used for non-capital financing activities | - | - | (131,297) | (131,297) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from capital debt, net of discount and issuance costs | - | - | 15,810,131 | 15,810,131 |
| Principal paid on bond anticipation note | - | - | (5,350,000) | (5,350,000) |
| Connection fees | 385,816 | - | 227,508 | 613,324 |
| Purchases of capital assets | (911,797) | - | (10,311,693) | (11,223,490) |
| Principal paid on capital debt | (250,000) | - | (142,604) | (392,604) |
| Interest paid on capital debt | (272,094) | - | (7,625) | (279,719) |
| Proceeds from sale of capital assets | - | 5,000 | - | 5,000 |
| Net cash provided by (used for) capital and related financing activities | (1,048,075) | 5,000 | 225,717 | (817,358) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Investment earnings | 57,073 | 11,780 | 303,852 | 372,705 |
| Net increase (decrease) in cash and investments | (798,343) | 65,442 | 345,350 | (387,551) |
| Cash and investments at January 1, 2006 | 2,446,908 | 323,667 | 8,186,852 | 10,957,427 |
| Cash and investments at December 31, 2006 | \$ 1,648,565 | \$ 389,109 | \$ 8,532,202 | \$ 10,569,876 |
| Reconciliation of cash and investments to the statement of net assets | | | | |
| Cash and investments | \$ 1,648,565 | \$ 389,109 | \$ 4,421,167 | \$ 6,458,841 |
| Restricted assets | - | - | 4,111,035 | 4,111,035 |
| | \$ 1,648,565 | \$ 389,109 | \$ 8,532,202 | \$ 10,569,876 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities | | | | |
| Operating income (loss) | \$ 51,162 | \$ 33,749 | \$ (403,322) | \$ (318,411) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | | | |
| Depreciation and amortization expense | 149,643 | 67,686 | 521,405 | 738,734 |
| Change in assets and liabilities | | | | |
| Receivables, net | 2,168 | (7,791) | (61,647) | (67,270) |
| Internal balances | (104,171) | (49,160) | (111,186) | (264,517) |
| Prepaid items | (95) | 6 | (95) | (184) |
| Accounts payable | 93,818 | 2,752 | 1,789 | 98,359 |
| Accrued liabilities | 134 | 1,420 | 134 | 1,688 |
| Net cash provided by (used for) operating activities | \$ 192,659 | \$ 48,662 | \$ (52,922) | \$ 188,399 |
| Noncash financing activities | | | | |
| Assumption of additional County debt | \$ - | \$ - | \$ 765,150 | \$ 765,150 |
| Relief of guaranteed County debt | | | (76,833) | (76,833) |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Agency Funds
 December 31, 2006

| | Trust and Agency | Current Tax Account | Payroll | Total |
|---------------------------------|---------------------|------------------------|-----------|--------------|
| ASSETS | | | | |
| Cash and investments | \$ 11,013 | \$ 3,234,639 | \$ 27,300 | \$ 3,272,952 |
| LIABILITIES | | | | |
| Accrued liabilities | \$ - | \$ - | \$ 27,300 | \$ 27,300 |
| Due to other governmental units | 10,057 | 3,226,730 | - | 3,236,787 |
| Deposits held for others | 956 | 7,909 | - | 8,865 |
| Total liabilities | \$ 11,013 | \$ 3,234,639 | \$ 27,300 | \$ 3,272,952 |

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Charter Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township is a municipal corporation governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part the government's operations.

Blended component unit

Building Authority. The Muskegon Charter Township Building Authority (Authority) serves all the citizens of the Township and is governed by a Board appointed by the Township's Board. The primary purpose of the Authority is to acquire and construct Township facilities. The Authority issues bonds that are approved by the Township Board, and the legal liability for the Authority's debt remains with the Township. The Authority then leases the assets to the Township to finance the repayment of the bonds.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Safety Fund is used to account for a special tax millage levied by the Township for the operation of the police and fire departments.

The Township reports the following three major proprietary funds:

The Eastside Water Fund operates the Township's water distribution system.

The Sanitation Fund accounts for user charges and for operating expenses and debt service of the Township's sanitation department.

The Sewer Fund operates the Township's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2005 state taxable value for real/personal property of the Township totaled approximately \$321,968,000. The ad valorem taxes levied consisted of 4.3534, .5 and 2.0 mills for the Township's general operating, street lighting and public safety purposes. These amounts are recognized in the respective General Fund, Street Lighting Fund, and Public Safety Fund. The Township has designated 1.0 mill of its general operating levy for local streets and recognized that amount in the Local Streets Fund.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain cash and investments from a debt issue in the Sewer Fund that are unspent are shown as restricted because their use is restricted to construction.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Eastside Water Fund during the year ended December 31, 2006 was \$297,058. Of this amount, \$21,218 was included as part of the cost of capital assets under construction in connection with the expansion of the water system. The total interest expense incurred by the Sewer Fund during the year ended December 31, 2006 was \$347,625. Of this amount, \$340,000 was included as part of the cost of capital assets under construction in connection with the expansion of the sewer system.

Property, plant and equipment is depreciated or amortized using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 30-40 |
| Utility systems | 50 |
| Land improvements | 20-30 |
| Furniture and equipment | 5-10 |
| Vehicles | 5-10 |
| Access rights | 20 |

Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Employees must use earned vacation time during the anniversary year following the one in which it was earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 180 days for employees. One half of all unused accumulated sick leave is paid to employees upon retirement. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to December 1, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds. The Township Board made several supplemental budgetary appropriations throughout the year.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, actual expenditures exceeded appropriations for:

| | Amended budget | Actual |
|-----------------------------|-------------------|------------|
| Northside Water System Fund | \$ 110,414 | \$ 131,184 |
| Economic Development Fund | 28,625 | 119,760 |

These overexpenditures were funded with available fund balance.

Fund Deficits

As of December 31, 2006, the Township's Local Streets Fund had an undesignated fund deficit of \$122,210, the 2003 Paving Project Fund had an undesignated fund deficit of \$130,610, and the 2006 Paving Project Fund had an undesignated fund deficit of \$73,240. The deficits in the paving funds will be eliminated through the collection of special assessments. The deficit in the Local Streets Fund will be eliminated through either the collection of Act 51 monies or an operating transfer from the General Fund.

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2006, the Township had the following investments:

| Investment Type | Fair value | Weighted average maturity (Months) | Moody's | Percent |
|-------------------------------------|--------------|---|-----------|---------|
| Money market mutual fund | \$ 15,264 | 1 | not rated | 0.8 % |
| U.S. Agency obligations | 98,750 | 28 | AAA | 5.1 |
| Negotiable certificates of deposit | 1,635,683 | 5 | not rated | 83.9 |
| Auction rate securities | 200,000 | N/A | not rated | 10.2 |
| Total fair value | \$ 1,949,697 | | | 100.0 % |
| Portfolio weighted average maturity | | 6 | | |

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Concentration of credit risk. The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Township has more than 5% of its investments in the following securities:

| Security | Total Investments |
|---|-------------------|
| Federal Home Loan Mortgage Corporation obligations | 5.1% |
| Raymond James Bank Negotiable Certificate of Deposit | 5.4% |
| Bank Hapoalim Negotiable Certificate of Deposit | 5.1% |
| Capital Crossing Bank Negotiable Certificate of Deposit | 5.1% |
| First Federal Bank Negotiable Certificate of Deposit | 5.1% |
| Franklin Bank Negotiable Certificate of Deposit | 5.1% |
| Grandsouth Bank Negotiable Certificate of Deposit | 5.1% |
| Home Federal Bank Negotiable Certificate of Deposit | 5.1% |
| Independent Bankers Negotiable Certificate of Deposit | 5.1% |
| Merrick Bank Negotiable Certificate of Deposit | 5.1% |
| Morgan Stanly Bank Negotiable Certificate of Deposit | 10.3% |
| Banco Santander Negotiable Certificate of Deposit | 5.1% |
| Flag Bank Negotiable Certificate of Deposit | 5.1% |
| Indymac Bank Negotiable Certificate of Deposit | 5.1% |
| Plainscapital Bank Negotiable Certificate of Deposit | 5.1% |
| Washington Trust Bank Negotiable Certificate of Deposit | 5.1% |

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2006, \$7,925,267 of the Township's bank balance of \$8,125,267 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

At December 31, 2006, the Township had \$1,635,683 invested in negotiable certificates of deposit issued by banks that did not have a branch in the State of Michigan. Therefore, the investments in these certificates are not authorized by state statute. The Township also invested \$200,000 in auction rate securities which are not a type of investment authorized by state statute. In April 2007, the auction rate securities were sold. There was no loss on disposal.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|---|-------------------------------|-------------------|-------------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 381,599 | \$ 792,604 | \$ - | \$ 1,174,203 |
| Construction in progress | <u>692,765</u> | <u>99,839</u> | <u>792,604</u> | <u>-</u> |
| Total capital assets, not being depreciated | 1,074,364 | 892,443 | 792,604 | 1,174,203 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 994,992 | - | - | 994,992 |
| Buildings and improvements | 2,618,246 | - | - | 2,618,246 |
| Furniture and equipment | 390,581 | 45,269 | - | 435,850 |
| Vehicles | <u>2,242,604</u> | <u>68,213</u> | <u>20,665</u> | <u>2,290,152</u> |
| Total capital assets, being depreciated | 6,246,423 | 113,482 | 20,665 | 6,339,240 |
| Less accumulated depreciation: | | | | |
| Land improvements | 490,631 | 29,712 | - | 520,343 |
| Buildings and improvements | 738,627 | 65,924 | - | 804,551 |
| Furniture and equipment | 257,773 | 25,437 | - | 283,210 |
| Vehicles | <u>1,471,164</u> | <u>205,577</u> | <u>14,810</u> | <u>1,661,931</u> |
| Total accumulated depreciation | <u>2,958,195</u> | <u>326,650</u> | <u>14,810</u> | <u>3,270,035</u> |
| Total capital assets, being depreciated, net | <u>3,288,228</u> | <u>(213,168)</u> | <u>5,855</u> | <u>3,069,205</u> |
| Capital assets, net | <u>\$ 4,362,592</u> | <u>\$ 679,275</u> | <u>\$ 798,459</u> | <u>\$ 4,243,408</u> |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE D—CAPITAL ASSETS—Continued

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|---|-------------------------------|----------------------|----------------------|---------------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 40,733 | \$ - | \$ - | \$ 40,733 |
| Construction in progress | 630,340 | 12,438,119 | 10,740,156 | 2,328,303 |
| Total capital assets, not being depreciated | 671,073 | 12,438,119 | 10,740,156 | 2,369,036 |
| Capital assets, being depreciated: | | | | |
| Utility systems | 28,633,067 | 10,740,156 | - | 39,373,223 |
| Furniture and equipment | 600 | - | - | 600 |
| Vehicles | 692,609 | - | 57,885 | 634,724 |
| Total capital assets, being depreciated | 29,326,276 | 10,740,156 | 57,885 | 40,008,547 |
| Less accumulated depreciation: | | | | |
| Utility systems | 8,122,697 | 581,797 | - | 8,704,494 |
| Furniture and equipment | 600 | - | - | 600 |
| Vehicles | 489,718 | 67,686 | 57,885 | 499,519 |
| Total accumulated depreciation | 8,613,015 | 649,483 | 57,885 | 9,204,613 |
| Total capital assets, being depreciated, net | 20,713,261 | 10,090,673 | - | 30,803,934 |
| Capital assets, net | \$ <u>21,384,334</u> | \$ <u>22,528,792</u> | \$ <u>10,740,156</u> | \$ <u>33,172,970</u> |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

| | |
|------------------------|-------------------|
| General government | \$ 31,144 |
| Public safety | 221,485 |
| Public works | 44,309 |
| Culture and recreation | <u>29,712</u> |
| | <u>\$ 326,650</u> |

Business-type activities:

| | |
|----------------|-------------------|
| Eastside water | \$ 147,469 |
| Sanitation | 67,686 |
| Sewer | <u>434,328</u> |
| | <u>\$ 649,483</u> |

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended December 31, 2006 was as follows:

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|-------------------------------|-------------------------------|-------------------|------------------|---------------------------------|
| Business-type activities | | | | |
| Access rights | \$ 772,772 | \$ 978,311 | \$ 81,232 | \$ 1,669,851 |
| Less accumulated amortization | <u>398,408</u> | <u>87,076</u> | <u>4,399</u> | <u>481,085</u> |
| Access rights, net | <u>\$ 374,364</u> | <u>\$ 891,235</u> | <u>\$ 76,833</u> | <u>\$ 1,188,766</u> |

Amortization

Amortization expense has been charged to sewer.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended December 31, 2006 was as follows:

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|----------------------------------|-------------------------------|------------------|-------------|---------------------------------|
| Business-type activities: | | | | |
| Bond issuance costs | \$ 83,541 | \$ 51,079 | \$ - | \$ 134,620 |
| Less accumulated amortization | <u>4,168</u> | <u>2,175</u> | <u>-</u> | <u>6,343</u> |
| Bond issuance costs, net | <u>\$ 79,373</u> | <u>\$ 48,904</u> | <u>\$ -</u> | <u>\$ 128,277</u> |

Amortization

Amortization expense has been charged to interest.

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2006 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| General Fund | Other governmental funds | \$ 200,272 |
| Public Safety Fund | General Fund | 3,200 |
| Eastside Water Fund | Other governmental funds | 89,345 |
| Eastside Water Fund | Sewer Fund | 1,349 |
| Sanitation Fund | General Fund | 5,000 |
| Sewer Fund | Other governmental funds | 19,048 |
| Other governmental funds | Eastside Water Fund | 1,361 |
| Other governmental funds | Sewer Fund | <u>36,000</u> |
| | | <u>\$ 355,575</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Advances to/from other funds:

Other governmental funds owe the Sewer Fund \$436,000 for capital projects.

Interfund transfers:

| | <u>Transfers in:</u> | | | |
|-----------------------------|-------------------------|-----------------------|-------------------|--------------------------------------|
| | <u>General Fund</u> | <u>Sewer Fund</u> | <u>Total</u> | <u>Purpose</u> |
| Transfers out: | | | | |
| Other governmental funds | \$ <u>90,575</u> | \$ <u>18,703</u> | \$ <u>109,278</u> | Operations subsidy and close fund |

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|---------------------|-------------------|
| Property taxes | \$ 1,505,203 | \$ 846,285 |
| Special assessments and other | <u>680,776</u> | <u>-</u> |
| Total deferred revenue for governmental funds | \$ <u>2,185,979</u> | \$ <u>846,285</u> |

NOTE I—BOND ANTICIPATION NOTE

In the prior year, Muskegon County issued a \$5,350,000 Bond Anticipation Note (BAN) (interest at 3.40%) on behalf of the Township, due November 1, 2006. The Township repaid the BAN upon the issuance of the \$16,000,000 Muskegon County Wastewater Management Bonds of 2006.

| | <u>Balance January 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31, 2006</u> |
|----------------------------------|--|------------------|---------------------|--|
| Business-type activities: | | | | |
| Bond Anticipation Note | \$ <u>5,350,000</u> | \$ <u>-</u> | \$ <u>5,350,000</u> | \$ <u>-</u> |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE J—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Township for the year ended December 31, 2006.

| | Balance January 1, 2006 | Additions | Reductions | Balance December 31, 2006 | Due within one year |
|---|-------------------------------|----------------------|-------------------|---------------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 110,000 | \$ - | \$ 35,000 | \$ 75,000 | \$ 35,000 |
| Special assessment debt with Township commitment | 471,920 | - | 139,018 | 332,902 | 85,000 |
| Installment purchase agreements | 230,000 | - | 110,000 | 120,000 | 40,000 |
| Compensated absences | 315,955 | 193,147 | 178,396 | 330,706 | 165,000 |
| Governmental activity long-term liabilities | <u>\$ 1,127,875</u> | <u>\$ 193,147</u> | <u>\$ 462,414</u> | <u>\$ 858,608</u> | <u>\$ 325,000</u> |
| Business-type activities: | | | | | |
| General obligation bonds | \$ 7,672,647 | \$ 16,626,360 | \$ 518,529 | \$ 23,780,478 | \$ 434,000 |
| Compensated absences | - | 13,349 | - | 13,349 | 6,000 |
| Business-type activity long-term liabilities | <u>\$ 7,672,647</u> | <u>\$ 16,639,709</u> | <u>\$ 518,529</u> | <u>\$ 23,793,827</u> | <u>\$ 440,000</u> |

Governmental activities:

General obligation bonds:

\$380,000 Building Authority Bonds of 1993 due
in annual installments of \$35,000 to \$40,000
through April 2008; interest at rates varying
from 5.6% to 5.7% \$ 75,000

Special assessment debt with Township commitment:

\$307,006 Northside Water Special Assessment Bonds
due in annual installments of \$2,100 to \$5,267
through July 2015; interest at 8% 37,902

\$235,000 Special Assessment Bonds of 1998 due in
annual installments of \$25,000 through February
2008; interest at rates varying from 4.4% to 4.45% 50,000

\$203,000 Special Assessment Bonds of 2000 due in
annual installments of \$20,000 to \$25,000 through
February 2010; interest at 5.2% 85,000

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE J—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities—Continued

Special assessment debt with Township commitment—Continued

| | |
|--|------------|
| \$315,000 Special Assessment Bonds of 2001 due in annual installments of \$30,000 to \$35,000 through March 2011; interest rates varying from 4% to 4.5% | \$ 160,000 |
|--|------------|

Installment purchase agreements:

| | |
|--|---------|
| \$400,000 Fire Truck Installment Purchase Agreement of 1999 due in annual installments of \$40,000 through April 2009; interest at 4.25% | 120,000 |
|--|---------|

| | |
|----------------------|---------|
| Compensated absences | 527,902 |
|----------------------|---------|

| |
|------------|
| 330,706 |
| \$ 858,608 |

Business-type activities:

General obligation bonds:

| | |
|---|--------------|
| \$7,000,000 General Obligation Bonds of 2004 due in annual installments of \$250,000 to \$495,000 through November 2025; interest at rates varying from 3% to 4.85% | \$ 6,750,000 |
|---|--------------|

| | |
|--------------------|----------|
| Less bond discount | (56,995) |
|--------------------|----------|

| | |
|--|---------|
| \$577,304 Muskegon County Wastewater Management - Number One Refunding Bond of 2002 due in annual installments of \$172,613 to \$174,265 through July 2008; interest at rates varying from 2.25% to 5% | 346,878 |
|--|---------|

| | |
|---|------------|
| \$16,000,000 Muskegon County Wastewater Management - Number One Bond of 2006 due in annual installments of \$295,432 to \$1,014,577 through November 2036; interest at rates varying from 4.25% to 5% | 16,000,000 |
|---|------------|

| | |
|--------------------|-----------|
| Less bond discount | (138,790) |
|--------------------|-----------|

| | |
|--|---------|
| \$1,615,250 Muskegon County Wastewater Management contract payable beginning in 2008; interest at 1.625% | 879,385 |
|--|---------|

| | |
|----------------------|---------------|
| Compensated absences | 23,780,478 |
| | 13,349 |
| | \$ 23,793,827 |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE J—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The general obligation bonds are backed by the full faith and credit of the Township.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The Township has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the Township. Current debt service requirements are funded by sewer revenues.

The County of Muskegon issued a \$7,900,000 Water Supply System Bond in 2006 to fund improvements to the Northside Water System which includes part of the Township. The Township has pledged its full faith and credit for a portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on December 31, 2006 was \$2,054,000. The Township is unaware of any circumstances that would cause a shortfall in the near future.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2006 follows:

| Year ending <u>December 31,</u> | Governmental activities | | Business-type activities | |
|------------------------------------|-------------------------|------------------|--------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2007 | \$ 160,000 | \$ 24,000 | \$ 434,000 | \$ 1,261,000 |
| 2008 | 166,000 | 16,000 | 1,317,000 | 1,013,000 |
| 2009 | 100,000 | 9,000 | 565,000 | 996,000 |
| 2010 | 55,000 | 5,000 | 587,000 | 974,000 |
| 2011 | 35,000 | 2,000 | 609,000 | 950,000 |
| 2012-2016 | 11,902 | 1,731 | 3,420,000 | 4,354,000 |
| 2017-2021 | - | - | 4,183,000 | 3,571,000 |
| 2022-2026 | - | - | 4,698,000 | 2,555,000 |
| 2027-2031 | - | - | 3,579,000 | 1,624,000 |
| 2032-2036 | - | - | 4,584,263 | 701,610 |
| | <u>\$ 527,902</u> | <u>\$ 57,731</u> | <u>\$ 23,976,263</u> | <u>\$ 17,999,610</u> |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE K—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability, property and insurance coverage as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

Post-Retirement Health Care

The Township has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were 23 retired employees receiving benefits. The Township finances the Plan on a pay-as-you-go basis. For the year ended December 31, 2006, the Township's post-retirement health care cost under the Plan was approximately \$167,000.

Commitments

At December 31, 2006, the Township had entered into various agreements for construction projects. Below is a summary of those agreements:

| <u>Fund</u> | <u>Project</u> | <u>Spent-to-date</u> | <u>Remaining commitment</u> |
|---------------------|------------------------|----------------------|---------------------------------|
| Sewer | Sewer system expansion | \$ 1,393,971 | \$ 805,596 |
| 2006 Paving Project | Paving | 73,566 | 56,465 |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE L—RETIREMENT PLANS

Pension Plan

Plan Description. The Township is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Township. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Charter Township
1990 E. Apple Avenue
Muskegon, MI 49442

Funding Policy. Township employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The Township is required to contribute at an actuarially-determined rate depending upon position from 6.91 to 13.18 percent of covered wages.

Annual Pension Cost. For the year ended December 31, 2006, the Township's annual pension cost was approximately \$296,000 which the Township contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| <u>Year ended</u> | <u>Approximate Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|--|--|-----------------------------------|
| 12/31/04 | \$ 284,000 | 100 % | \$ - |
| 12/31/05 | 297,000 | 100 | - |
| 12/31/06 | 296,000 | 100 | - |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollars amounts in thousands)

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets</u> | <u>Actuarial Accrued Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percentage of covered payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/03 | \$ 8,353 | \$ 10,496 | \$ 2,143 | 80 % | \$ 2,475 | 87 % |
| 12/31/04 | 8,879 | 10,892 | 2,013 | 82 | 2,496 | 81 |
| 12/31/05 | 9,440 | 11,321 | 1,881 | 83 | 2,532 | 74 |

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE L—RETIREMENT PLANS—Continued

Deferred Compensation Plan

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Township employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE M—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 44 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Charter Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended December 31, 2006

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|--|------------------|--------------|--------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Property taxes | \$ 1,579,000 | \$ 1,271,121 | \$ 1,295,483 | \$ 24,362 |
| Licenses and permits | 348,300 | 351,026 | 304,550 | (46,476) |
| Intergovernmental revenues - State | 1,685,500 | 1,730,769 | 1,693,004 | (37,765) |
| Charges for services | 340,840 | 348,618 | 330,157 | (18,461) |
| Fines and forfeitures | 45,500 | 45,500 | 74,153 | 28,653 |
| Investment earnings | 35,000 | 35,000 | 127,847 | 92,847 |
| Other | 75,100 | 79,545 | 74,650 | (4,895) |
| Total revenues | 4,109,240 | 3,861,579 | 3,899,844 | 38,265 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Board of trustees | 33,736 | 32,944 | 31,908 | 1,036 |
| Supervisor | 84,845 | 83,598 | 83,458 | 140 |
| Elections | 26,536 | 26,536 | 24,575 | 1,961 |
| Financial administration | 231,321 | 253,321 | 258,945 | (5,624) |
| Clerk | 252,606 | 258,259 | 239,519 | 18,740 |
| Treasurer | 203,513 | 201,981 | 194,080 | 7,901 |
| Township hall | 77,670 | 62,670 | 57,208 | 5,462 |
| Board of appeals | 1,687 | 1,727 | 946 | 781 |
| Public safety | | | | |
| Police department | 1,196,943 | 1,223,143 | 1,199,690 | 23,453 |
| Fire department | 922,380 | 922,380 | 894,137 | 28,243 |
| Inspection department | 256,985 | 260,985 | 255,833 | 5,152 |
| Public works | | | | |
| Leaf collection | 19,000 | 19,000 | 9,870 | 9,130 |
| Community and economic development | | | | |
| Planning | 42,568 | 27,728 | 25,751 | 1,977 |
| Culture and recreation | | | | |
| Parks and recreation | 218,906 | 218,392 | 201,527 | 16,865 |
| Other governmental functions | | | | |
| Insurance | 271,937 | 276,937 | 264,780 | 12,157 |
| Payroll benefits | 16,600 | 27,600 | 28,331 | (731) |
| Other | 15,649 | 22,739 | 22,275 | 464 |
| Debt service | | | | |
| Principal | 35,000 | 35,000 | 35,000 | - |
| Interest and fees | 5,203 | 5,203 | 5,203 | - |
| Capital outlay | - | 45,269 | 45,269 | - |
| Total expenditures | 3,913,085 | 4,005,412 | 3,878,305 | 127,107 |
| Excess of revenues over (under) expenditures | 196,155 | (143,833) | 21,539 | 165,372 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 16,000 | 16,000 | 268 | (15,732) |
| Transfers in | 285,000 | 90,000 | 90,575 | 575 |
| Transfers out | (320,461) | - | - | - |
| Total other financing sources (uses) | (19,461) | 106,000 | 90,843 | (15,157) |
| Net change in fund balance | \$ 176,694 | \$ (37,833) | 112,382 | \$ 150,215 |
| Fund balance at January 1, 2006 | | | 417,408 | |
| Fund balance at December 31, 2006 | | | \$ 529,790 | |

Muskegon Charter Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Public Safety Fund
For the year ended December 31, 2006

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|--|------------------|-------------|------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Property taxes | \$ 655,200 | \$ 655,200 | \$ 659,885 | \$ 4,685 |
| Investment earnings | 500 | 500 | 6,735 | 6,235 |
| Other | 7,900 | 12,400 | 11,207 | (1,193) |
| Total revenues | 663,600 | 668,100 | 677,827 | 9,727 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | 532,266 | 570,001 | 558,552 | 11,449 |
| Debt service | | | | |
| Principal | 70,000 | 70,000 | 70,000 | - |
| Interest and fees | 3,570 | 3,570 | 1,418 | 2,152 |
| Capital outlay | 66,000 | 68,213 | 68,213 | - |
| Total expenditures | 671,836 | 711,784 | 698,183 | 13,601 |
| Excess of revenues over (under) expenditures | (8,236) | (43,684) | (20,356) | 23,328 |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of capital assets | - | - | 3,200 | 3,200 |
| Net change in fund balance | \$ (8,236) | \$ (43,684) | (17,156) | \$ 26,528 |
| Fund balance at January 1, 2006 | | | 100,734 | |
| Fund balance at December 31, 2006 | | | \$ 83,578 | |

OTHER SUPPLEMENTAL INFORMATION

Muskegon Charter Township
COMBINING BALANCE SHEET
Other Governmental Funds
December 31, 2006

| | Total other governmental funds | Special Revenue | | | | | | Capital Projects | | Debt Service | | | | |
|--|--------------------------------------|------------------|-------------------|--------------------|------------------------------|-------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | Local Streets | Fire Equipment | Street Lighting | Northside Water System | Economic Development | Northside Water System II | 2003 Paving Project | 2006 Paving Project | 1996 Paving Project | 1998 Paving Project | 2000 Paving Project | 2001 Paving Project | 2006 Paving Project |
| ASSETS | | | | | | | | | | | | | | |
| Cash and investments | \$ 1,278,369 | \$ - | \$ 208,910 | \$ 88,317 | \$ 344,647 | \$ 45,282 | \$ 155,208 | \$ 146,155 | \$ 141,072 | \$ 575 | \$ 41,275 | \$ 47,399 | \$ 50,894 | \$ 8,635 |
| Receivables | | | | | | | | | | | | | | |
| Property taxes | 247,616 | - | - | 98,941 | 148,675 | - | - | - | - | - | - | - | - | - |
| Special assessments | 473,691 | - | - | - | - | - | 53,997 | 123,987 | - | - | 17,561 | 36,272 | 95,790 | 146,084 |
| Due from other governmental units | 101,986 | - | 21,312 | - | - | 80,674 | - | - | - | - | - | - | - | - |
| Due from other funds | 37,361 | - | 36,000 | - | - | - | 1,361 | - | - | - | - | - | - | - |
| Prepaid items | 67 | 67 | - | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | <u>\$ 2,139,090</u> | <u>\$ 67</u> | <u>\$ 266,222</u> | <u>\$ 187,258</u> | <u>\$ 493,322</u> | <u>\$ 125,956</u> | <u>\$ 210,566</u> | <u>\$ 270,142</u> | <u>\$ 141,072</u> | <u>\$ 575</u> | <u>\$ 58,836</u> | <u>\$ 83,671</u> | <u>\$ 146,684</u> | <u>\$ 154,719</u> |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | | | |
| Accounts payable | \$ 100,602 | \$ 8,192 | \$ 1,502 | \$ 14,596 | \$ - | \$ 12,000 | \$ - | \$ - | \$ 64,312 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accrued liabilities | 6,813 | 6,813 | - | - | - | - | - | - | - | - | - | - | - | - |
| Due to other governmental units | 82,217 | - | - | - | - | 82,217 | - | - | - | - | - | - | - | - |
| Due to other funds | 308,665 | 107,272 | 90,000 | - | 89,000 | 3,115 | 18,703 | - | - | 575 | - | - | - | - |
| Deferred revenue | 851,382 | - | 924 | 170,606 | 250,336 | - | 45,376 | 114,752 | - | - | 10,300 | 30,204 | 84,480 | 144,404 |
| Advances from other funds | 436,000 | - | - | - | - | - | - | 286,000 | 150,000 | - | - | - | - | - |
| Total liabilities | 1,785,679 | 122,277 | 92,426 | 185,202 | 339,336 | 97,332 | 64,079 | 400,752 | 214,312 | 575 | 10,300 | 30,204 | 84,480 | 144,404 |
| Fund balances (deficits) | | | | | | | | | | | | | | |
| Reserved for: | | | | | | | | | | | | | | |
| Prepaid items | 67 | 67 | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt service | 174,522 | - | - | - | - | - | - | - | - | - | 48,536 | 53,467 | 62,204 | 10,315 |
| Unreserved | | | | | | | | | | | | | | |
| Undesignated | 178,822 | (122,277) | 173,796 | 2,056 | 153,986 | 28,624 | 146,487 | (130,610) | (73,240) | - | - | - | - | - |
| Total fund balances (deficits) | <u>353,411</u> | <u>(122,210)</u> | <u>173,796</u> | <u>2,056</u> | <u>153,986</u> | <u>28,624</u> | <u>146,487</u> | <u>(130,610)</u> | <u>(73,240)</u> | <u>-</u> | <u>48,536</u> | <u>53,467</u> | <u>62,204</u> | <u>10,315</u> |
| Total liabilities and fund balances (deficits) | <u>\$ 2,139,090</u> | <u>\$ 67</u> | <u>\$ 266,222</u> | <u>\$ 187,258</u> | <u>\$ 493,322</u> | <u>\$ 125,956</u> | <u>\$ 210,566</u> | <u>\$ 270,142</u> | <u>\$ 141,072</u> | <u>\$ 575</u> | <u>\$ 58,836</u> | <u>\$ 83,671</u> | <u>\$ 146,684</u> | <u>\$ 154,719</u> |

Muskegon Charter Township
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Other Governmental Funds
For the year ended December 31, 2006

| | Total other governmental funds | Special Revenue | | | | | | Capital Projects | | Debt Service | | | | |
|---|--------------------------------------|------------------|-------------------|--------------------|------------------------------|-------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | Local Streets | Fire Equipment | Street Lighting | Northside Water System | Economic Development | Northside Water System II | 2003 Paving Project | 2006 Paving Project | 1996 Paving Project | 1998 Paving Project | 2000 Paving Project | 2001 Paving Project | 2006 Paving Project |
| REVENUES | | | | | | | | | | | | | | |
| Property taxes | \$ 486,917 | \$ 321,968 | \$ - | \$ 164,949 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental revenues - Federal | 25,364 | - | - | - | - | 25,364 | - | - | - | - | - | - | - | - |
| Charges for services | 516,797 | - | 325,056 | - | 191,492 | - | 249 | - | - | - | - | - | - | - |
| Investment earnings | 74,270 | 1,672 | 4,643 | 1,731 | 7,838 | 1,975 | 9,213 | 28,892 | 326 | 1,265 | 3,148 | 5,057 | 8,510 | - |
| Other | 98,697 | - | 100 | - | - | - | 15,473 | 25,917 | - | - | 11,161 | 11,608 | 24,123 | 10,315 |
| Total revenues | 1,202,045 | 323,640 | 329,799 | 166,680 | 199,330 | 27,339 | 24,935 | 54,809 | 326 | 1,265 | 14,309 | 16,665 | 32,633 | 10,315 |
| EXPENDITURES | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | |
| Public safety | 60,379 | - | 60,379 | - | - | - | - | - | - | - | - | - | - | - |
| Public works | 686,798 | 445,850 | - | 167,382 | - | - | - | - | 73,566 | - | - | - | - | - |
| Community and economic development | 19,688 | - | - | - | - | 19,688 | - | - | - | - | - | - | - | - |
| Other governmental functions | 131,417 | - | - | - | 131,184 | 233 | - | - | - | - | - | - | - | - |
| Debt service | | | | | | | | | | | | | | |
| Principal | 179,018 | - | 40,000 | - | - | - | 9,018 | - | - | 45,000 | 25,000 | 25,000 | 35,000 | - |
| Interest and fees | 27,903 | - | 6,791 | - | - | - | 3,754 | - | - | 1,672 | 3,150 | 5,088 | 7,448 | - |
| Capital outlay | 99,839 | - | - | - | - | 99,839 | - | - | - | - | - | - | - | - |
| Total expenditures | 1,205,042 | 445,850 | 107,170 | 167,382 | 131,184 | 119,760 | 12,772 | - | 73,566 | 46,672 | 28,150 | 30,088 | 42,448 | - |
| Excess of revenues over (under) expenditures | (2,997) | (122,210) | 222,629 | (702) | 68,146 | (92,421) | 12,163 | 54,809 | (73,240) | (45,407) | (13,841) | (13,423) | (9,815) | 10,315 |
| OTHER FINANCING USES | | | | | | | | | | | | | | |
| Transfers out | (109,278) | - | (90,000) | - | - | - | (18,703) | - | - | (575) | - | - | - | - |
| Net change in fund balances (deficits) | (112,275) | (122,210) | 132,629 | (702) | 68,146 | (92,421) | (6,540) | 54,809 | (73,240) | (45,982) | (13,841) | (13,423) | (9,815) | 10,315 |
| Fund balances (deficits) at January 1, 2006 | 465,686 | - | 41,167 | 2,758 | 85,840 | 121,045 | 153,027 | (185,419) | - | 45,982 | 62,377 | 66,890 | 72,019 | - |
| Fund balances (deficits) at December 31, 2006 | \$ 353,411 | \$ (122,210) | \$ 173,796 | \$ 2,056 | \$ 153,986 | \$ 28,624 | \$ 146,487 | \$ (130,610) | \$ (73,240) | \$ - | \$ 48,536 | \$ 53,467 | \$ 62,204 | \$ 10,315 |

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 15, 2007

Township Board
Muskegon Charter Township
Muskegon, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muskegon Charter Township as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Muskegon Charter Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muskegon Charter Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskegon Charter Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the Township Board, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: Investments should be reviewed for compliance with State law.

During our audit testing, we noted that the Township had investments that were not authorized by the State of Michigan. This is in violation of Michigan Public Act 196 of 1997.

The Township should dispose of all unauthorized investments as soon as possible. In addition, investments held by the Township should be reviewed periodically by an appropriate member of management so as to prevent future occurrences of this nature.

Recommendation 2: All journal entries should have documented approval by an appropriate Township official.

During our testing, we noted that documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with documented approval of all journal entries would reduce the possibility of an inaccurate journal entry being made.

We consider the following items contained in our May 16, 2006 letter as still applicable:

Recommendation 1: Bank reconciliations should be reviewed and approved.

Recommendation 2: County records for activity in the Economic Development Administration project and in the Sewer expansion project should be regularly reconciled.